

California Public Utilities Commission

Report to the Legislature on

**Year 2004 Utility Procurement
of Goods, Services and Fuel
from**

**Women-, Minority-, and Disabled Veteran-owned
Business Enterprises**

Submitted
September 2005

Contents

EXECUTIVE SUMMARY	1
OVERVIEW OF 2004 RESULTS SUMMARY	2
2004 UTILITY PROCUREMENT PROGRAM RESULTS	3
Large Utilities	3
Minority Business Enterprise Procurement	4
Woman Business Enterprise Procurement	5
Disabled Veteran Business Enterprise Procurement	6
Small Utilities	7
Minority Business Enterprise Procurement	7
Woman Business Enterprise Procurement	8
Disabled Veteran Business Enterprise Procurement	9
Fuel Procurement	10
PROGRAM EXPANSION AND IMPROVEMENTS	10
Targeted Procurement Categories	10
New Participating Utilities	11
Full Panel Hearing	11
California Utilities Diversity Council	11
WMDVBE Verification	13
CONCLUSIONS	14

TABLES

TABLE 1A	2004 WMDVBE Procurement Results for Large Utilities
TABLE 1B	2003 WMDVBE Procurement Results for Large Utilities
TABLE 2A	2004 WMDVBE Procurement Results for Small Utilities
TABLE 2B	2003 WMDVBE Procurement Results for Small Utilities
TABLE 3	2004 and 2003 Comparative Summary of Large, Small, and Combined Utility MBE/WBE/DVBE and Total WMDVBE Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 4A	2004 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 4B	2003 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 5A	2004 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total MBE Procurement)
TABLE 5B	2003 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total MBE Procurement)
TABLE 6A	Summary of Procurement from Women: 2004 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 6B	Summary of Procurement from Women: 2003 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 7A	2004 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 7B	2003 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 8A	2004 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)
TABLE 8B	2003 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)

EXECUTIVE SUMMARY

This is the California Public Utilities Commission's 19th annual report to the Legislature, pursuant to Public Utilities (PU) Code Section 8283, on progress reported by utilities in procuring goods, services and fuel from women-, minority-, and disabled veteran-owned business enterprises (WMDVBEs).

PU Code Section 8283 requires Commission-regulated gas, electric, and telephone utilities, and their regulated subsidiaries and affiliates, with gross annual revenues exceeding \$25 million, to submit annual verifiable plans for increasing procurement from WMDVBEs. The Commission is responsible for verifying the status of WMDVBE applicants, reporting results of the program, and making recommendations to achieve maximum results in implementing legislative policy.

PU Code Section 8283 mandates that the Commission submit its report on September 1 of each year. General Order (GO) 156 requires each utility to establish goals for utility purchases of services, goods, and fuel as a percentage of total procurement from WMDVBEs. The goals are 15 percent, 5 percent, and 1.5 percent for minority-owned, women-owned, and disabled veteran-owned businesses, respectively.

Utility spending on WMDVBE procurement increased from \$ 1.33 billion in 2003 to \$1.89 billion in 2004. In percentage terms, procurement amounts from WMDVBE firms decreased, from 18.81% in 2003 to 15.49% in 2004. Three factors are contributing to the percentage decline:

- Wireless telecommunications carriers are procuring billions of dollars of equipment, primarily handsets, which are primarily manufactured overseas.
- There are utilities new to the program, whose programs are not as well developed and whose efforts are not as evident as utilities with established programs.
- The Commission eliminated the use of exclusions in procurement reporting in 2003.

There have been major accomplishments and significant developments in the Utility Supplier Diversity Program, which include:

- The Commission held its second Full Panel hearing in October of 2004, and will hold its third Full Panel hearing in October of 2005, regarding the supplier diversity program and

other diversity issues. Representatives from industry, government, and other interested parties are expected to attend.

- In March 2004 the California Utilities Diversity Council (CUDC) was formed as a direct result of the July 2003 Full Panel Hearing on diversity. The purpose of Council is to act as a forum, and provide input on issues related to utility diversity, governance, procurement, employment, customer service, banking, and philanthropy. Members of the Council include recognized leaders from the business community, consumer groups, multi-language interests, education, labor organizations, and the utilities.
- CPUC staff is upgrading the supplier database to make it more effective. The CPUC will maintain the new system.

OVERVIEW OF 2004 SUPPLIER DIVERSITY PROCUREMENT

Total utility WMDVBE procurement for 2004 was \$1.89 billion – a 42 percent increase from the \$1.33 billion reported in 2003. Of the \$1.89 billion for 2004, \$1.3 billion (10% of total corporate procurement) was for goods and services procured from minority-owned business enterprises (MBEs); \$584 million (5%) was for goods and services procured from women-owned business enterprises (WBEs); \$36 million (0.3%) was for goods and services procured from disabled veteran-owned business enterprises (DVBES). Overall, the utilities are nearly meeting the 5 percent goal for women-owned businesses, but are not achieving the 15 percent goal for minority-owned business enterprises. The utilities are failing to achieve the 1.5 percent goal for disabled veteran-owned businesses. [See Table 3]

In 2003, the Commission reported the results of 19 utilities; for 2004, the Commission reported the results of 24 utilities. Some of these utilities are filing their first or second report, and have not yet fully developed their WMDVBE programs. The utilities reported an increase in total corporate procurement from \$7.1 billion in 2003 to \$12.4 billion in 2004, a 73 percent increase.

2004 UTILITY WMDVBE PROCUREMENT PROGRAM RESULTS

This report summarizes the utility procurement information into two categories: large utilities - those with total procurement grossing over \$250 million, and small utilities - those grossing under \$250 million. The tables attached to this report summarize the utilities' 2004 and 2003 WMDVBE procurement program results. The large utilities (see Table 1A) represent a disproportionately large share of total utility procurement (96%).

This report does not include the results of some utilities.

- VarTec Telecom has submitted a plan to the Commission stating it has a limited physical presence in California and has no results to report at this point. Pac-West Telecomm submitted its plan, which shows total WMDVBE procurement of less than 0.2%.
- Comcast and Cox Communications were not included, as they reported no procurement activity in California. Comcast and Cox Communications state their procurement is processed by their parent companies, located out of state.

The Commission is studying these issues to determine the utilities' reporting requirements under GO 156.

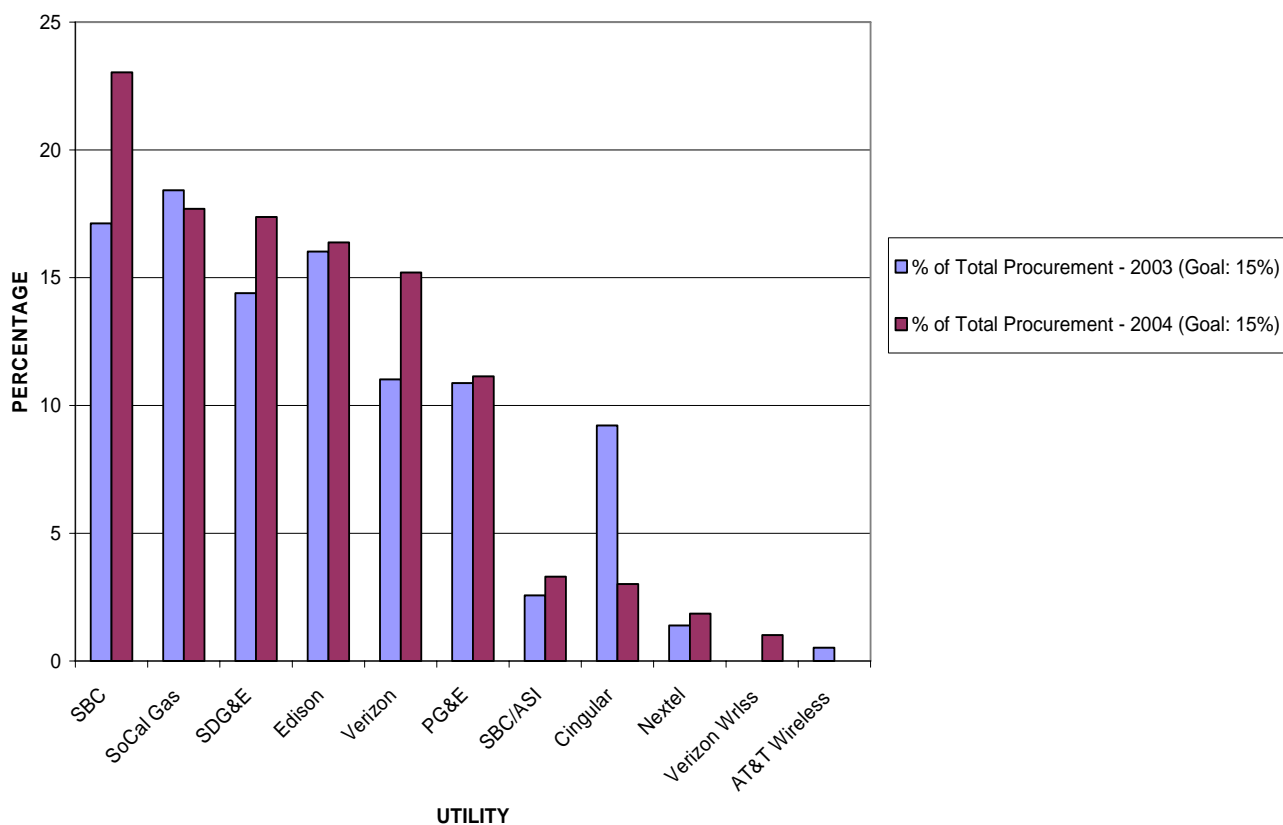
Program Results of Large Utilities

The ten large utilities reporting activity in their WMDVBE programs are Cingular Wireless, Southern California Edison (Edison), Nextel, Pacific Gas and Electric Company (PG&E), SBC, SBC/ASI, San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), Verizon of California, and Verizon Wireless. The 2004 results for the large utilities show an overall WMDVBE procurement increase in terms of dollars, but a decrease of 3.32% as a percentage of total procurement; from \$1.30 billion (18.81%) in 2003 to \$1.84 billion (15.49%) in 2004 [See Tables 1A and 1B].

Large Utilities' Procurement From Minority-owned Businesses

Of the large utilities, five met the procurement goal of 15 percent, and five did not. Of the five who did not meet the goal, four utilities are relatively new to the program. The utilities spent more procurement dollars on MBEs – from \$892 million (12.89%) in 2003, to \$1.2 billion (10.39%) in 2004. Verizon, SBC, Edison, SDG&E, and PG&E reported increases in both dollars and percentages of total corporate procurement from minority-owned businesses [See Tables 1A and 1B].

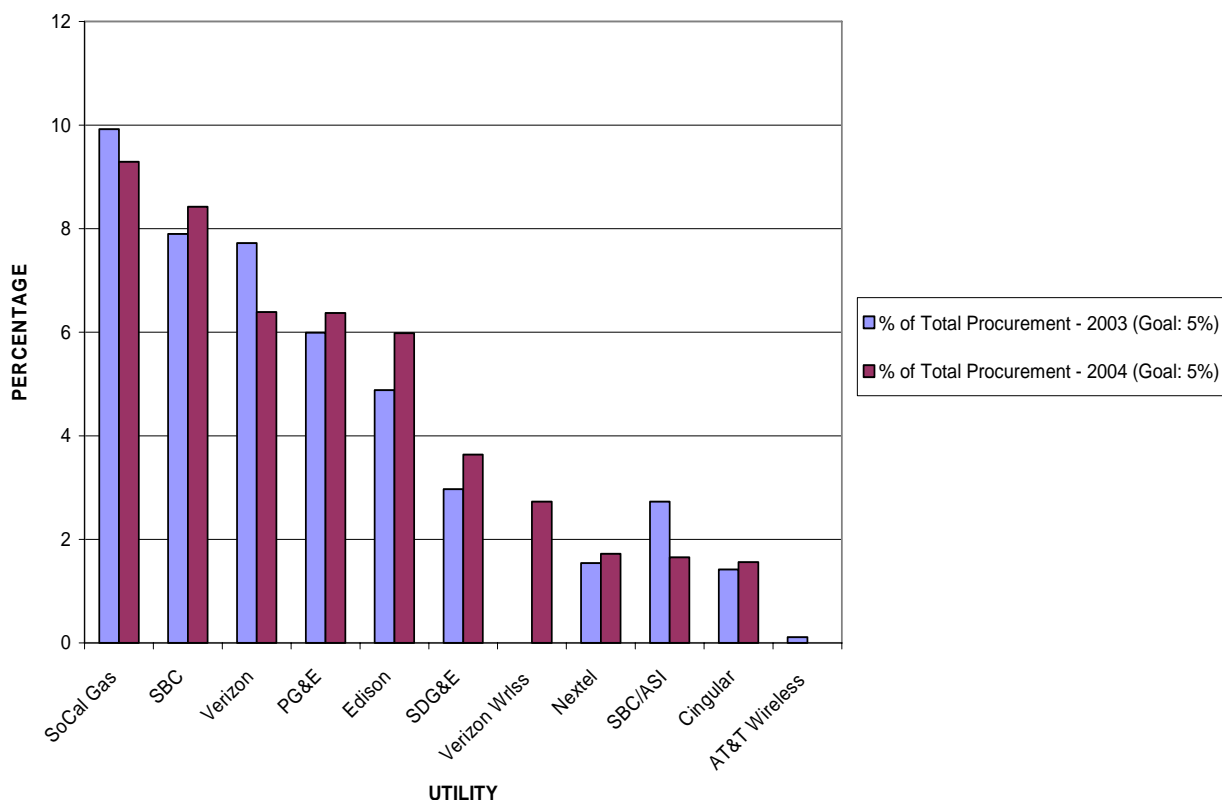
Minority Business Enterprise: Comparison of Years 2003 and 2004



Large Utilities' Procurement From Women-owned Businesses

Of the 10 large utilities, five met the procurement goal of 5 percent with WBEs and five did not. Of the five who did not, four are relatively new to the program. The utilities spent more procurement dollars on WBEs - from \$378 million (5.47%) in 2003 to \$570 million (4.8%) in 2004. SBC, PG&E, Edison, SDG&E, Nextel, and Cingular reported increases in both dollars and percentages of total corporate procurement from women-owned businesses [See Tables 1A, 1B, 6A and 6B].

Women Business Enterprise: Comparison of Years 2003 and 2004

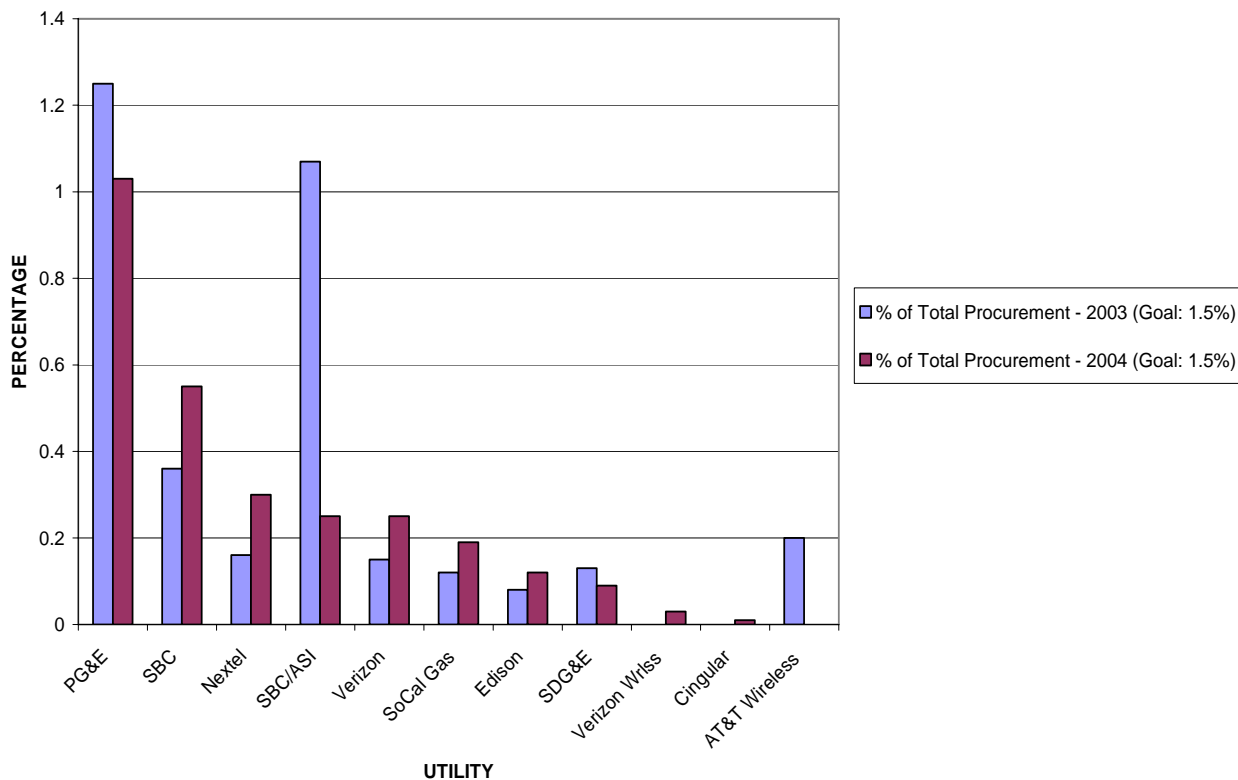


Large Utilities' Procurement From Disabled Veteran-owned Businesses

The large utilities' procurement from DVBEs increased from \$31 million (0.45%) in 2003 to \$35 million (0.29 %) in 2004. No large utility reported achieving the 1.5 percent procurement goal in General Order 156. The utilities have joined with the DVBE community in an effort to address this on-going deficiency. SBC, Nextel, Verizon, SoCal Gas, Edison, and Cingular all reported increases in both dollars and as a percentage of total procurement from disabled veteran-owned businesses [See Tables 1A, 1B, 7A and 7B].

Utility companies have emphasized their efforts in reaching the procurement goals for DVBEs. Southern California Edison states it has led the effort in the development of the California DVBE Alliance Corporate Advisory Board. It has also had their Supplier Diversity associates assist DVBEs in the presentation of their products and services to procurement and end-users throughout the Southern California Edison organization. Pacific Gas and Electric states that in April 2004, it received a top Supplier Diversity award from the California DVBE Alliance at their annual Keeping The Promise Trade Show/Luncheon.

Disabled Veteran Business Enterprise: Comparison of Years 2003 and 2004



Program Results of Small Utilities

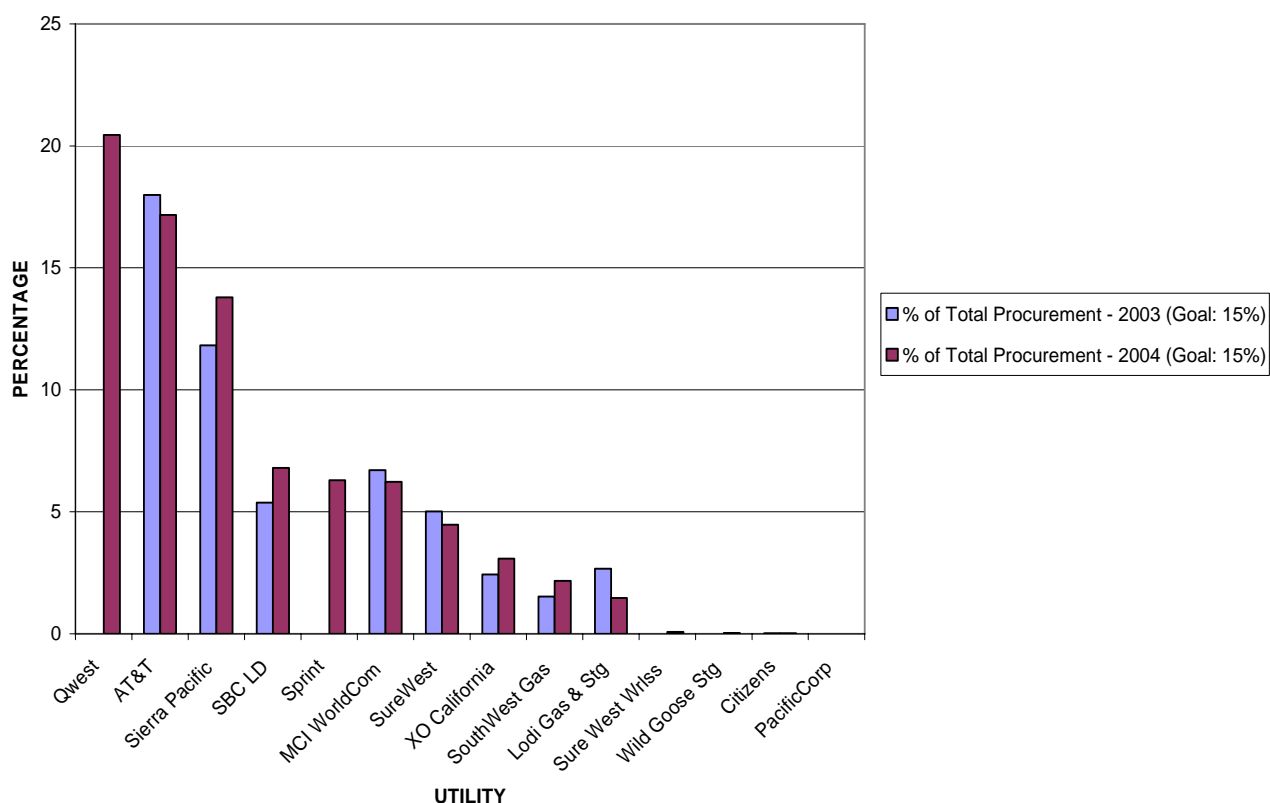
For those regulated utilities having a total procurement of less than \$250 million, overall combined WMDVBE procurement increased in dollars from \$31.20 million (13.88%) in 2003 to \$50.8 million (9.86%) in 2004 [See Tables 2A and 2B]. As noted earlier, small utilities account for approximately 4% of total utility procurement.

The fourteen small utilities reporting in the WMDVBE program are: AT&T, Citizens Telecommunications (Citizens), Lodi Gas & Storage, MCI WorldCom, PacificCorp, Qwest, SBC Long Distance (SBC LD), Sierra Pacific, SouthWest Gas, Sprint, SureWest, SureWest Wireless, Wild Goose Storage, and XO California.

Small Utilities' Procurement From Minority-owned Businesses

Overall procurement from MBEs increased in dollars from \$17.2 million in 2003 (7.64%) to \$35.3 million (6.85%) in 2004. Only Qwest and AT&T achieved the 15 percent MBE goal. Sierra Pacific, XO California, and SouthWest Gas reported increases in MBE procurement, both in dollar volume and as a percentage of total corporate procurement.

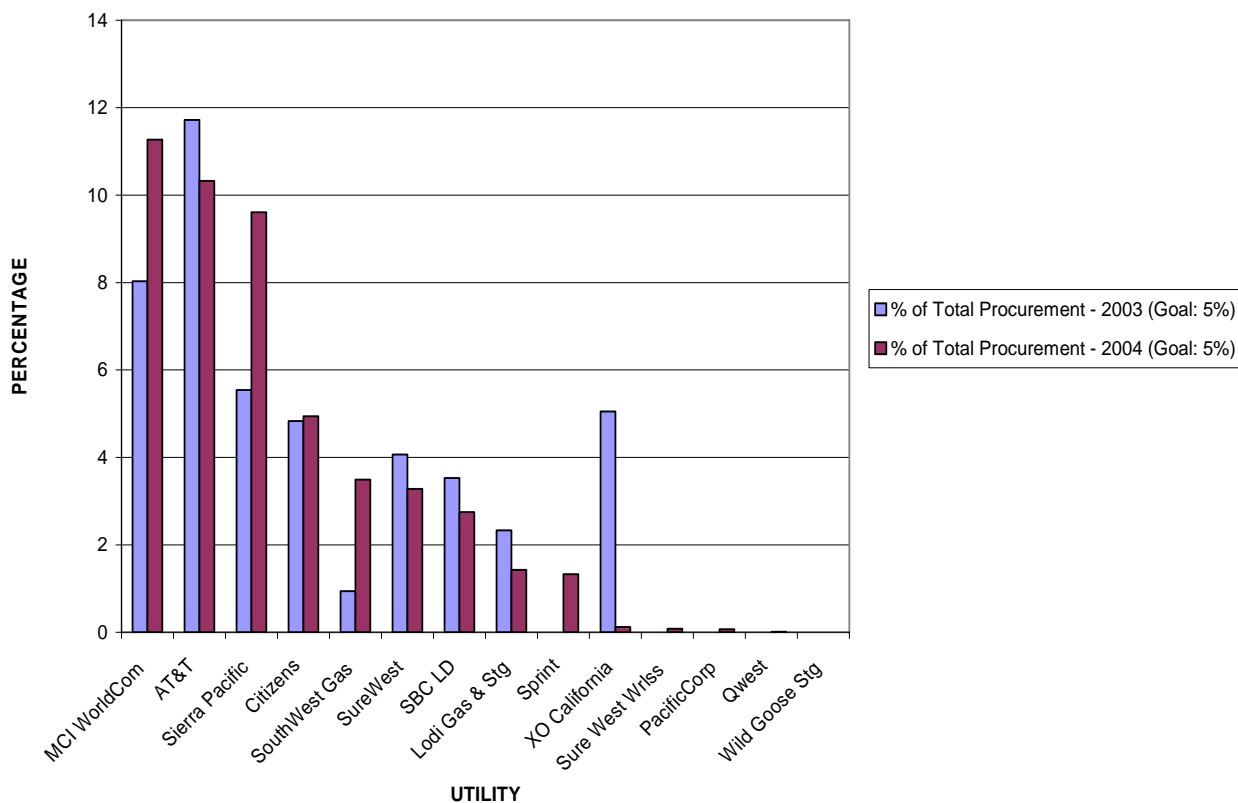
Minority Business Enterprise: Comparison of Years 2003 and 2004



Small Utilities' Procurement From Woman-owned Businesses

Procurement from WBEs increased in dollar volume from \$13.2 million (5.86%) in 2003 to \$14.3 million (2.78%) in 2003. AT&T, Citizens, MCI WorldCom and SouthWest Gas reported increases in their percentages and dollar volumes of WBE procurement. Except for AT&T, MCI WorldCom, Sierra Pacific and XO California, all small utilities failed to meet the 5 percent WBE procurement goal.

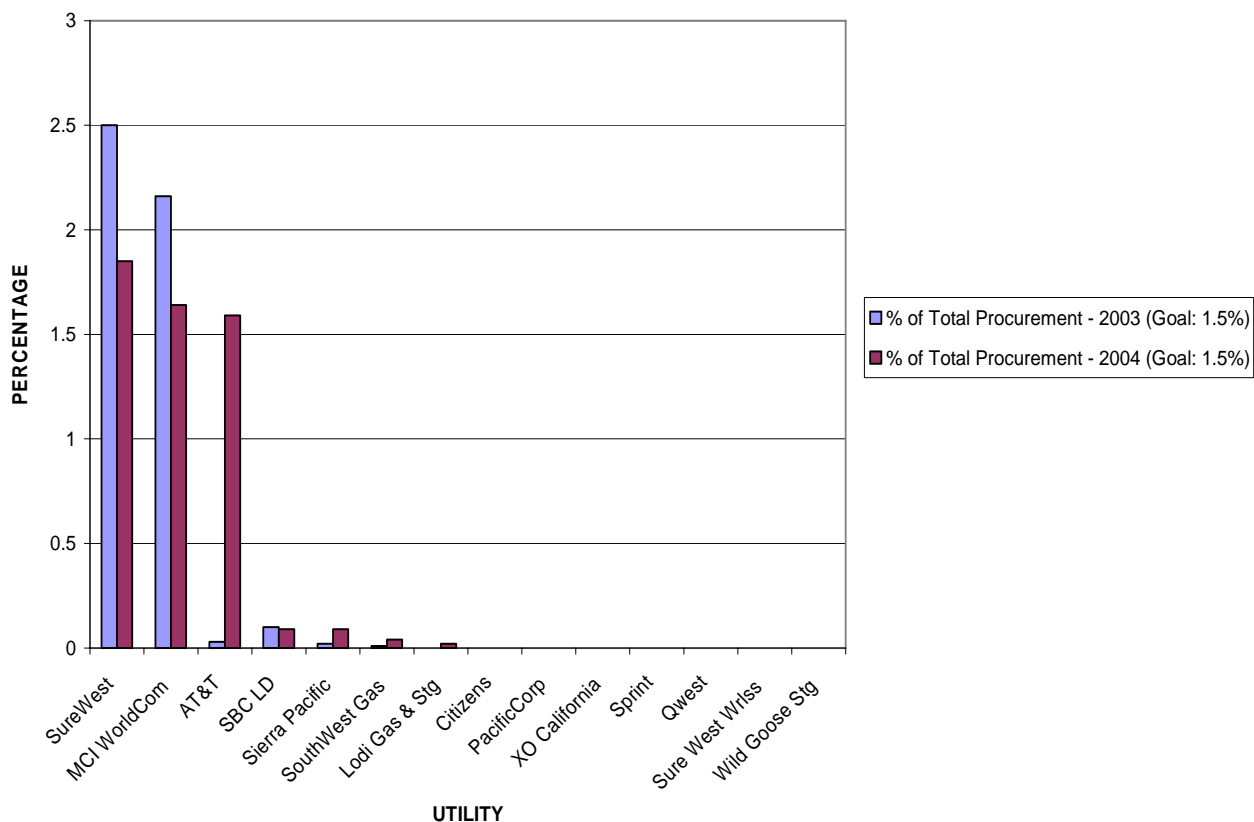
Women Business Enterprise: Comparison of Years 2003 and 2004



Small Utilities' Procurement From Disabled Veteran-owned Businesses

DVBE procurement increased in dollars from \$871,390 (0.39%) in 2003 to \$1,186,722 (0.23%) in 2004. AT&T, Sierra Pacific, Southwest Gas and Lodi Gas & Storage reported increases in both dollar volume and as a percentage of total procurement from DVBEs. All other small utilities reported declines in their results. Only SureWest, MCI WorldCom, and AT&T achieved the 1.5 percent DVBE goal.

Disabled Veteran Business Enterprise: Comparison of Years 2003 and 2004



Fuel Procurement

General Order 156, Section 9.1.10 allows the utilities to report fuel procurement separately, and does not require fuel purchases to be included in the procurement base on which achievement of the 5-percent/15-percent/1.5-percent goals are based. Five energy utility companies (PG&E, SCE, SoCalGas, SDG&E, and SWG) reported fuel purchases separately.

Overall, fuel procurement from WMDVBES increased in dollars from \$301 million in 2003 to \$467 million in 2004 and increased as a percentage of total corporate procurement from 9.72% in 2003 to 12.36% in 2004. Fuel procurement from MBEs increased in dollars from \$301 million in 2003 to \$420 million in 2004. Fuel procurement from MBEs increased as a percentage of total procurement from 9.72% in 2003 to 11.10% in 2004. No fuel was purchased from DVBEs in 2004; however, \$48 million was purchased from WBEs in 2004. [See Tables 8A and 8B].

PROGRAM EXPANSION AND IMPROVEMENTS

Targeted Procurement Categories

Section 8.11 of GO 156 states, "Each utility shall make special efforts to increase utilization and encourage entry into the marketplace of WMDVBES in product or service categories where there has been low utilization of WMDVBES, such as legal and financial services, fuel procurement, and areas that are considered technical in nature." The Commission is currently reviewing the utilities' efforts in these areas. Specifically, it has started to review the utilities' commitment in the area of legal services. An initial meeting was held with the General Counsels of California's major utilities and the President of the Commission, and staff. In that discussion major concepts and goals of the program, and the Commission's expectations, were conveyed to the General Counsels. A foundation was laid for future interactions leading to the establishment of increased procurement with WMDVBE vendors in the legal services field. Commission staff is also pursuing utility procurement practices and activities in the area of financial services.

New Participating Utilities

This report includes results from utilities that have not previously reported their procurement information to the Commission, or have not had their results included in the Commission's report. These include telecommunications carriers such as Verizon Wireless, SureWest Wireless, Qwest, and energy utility Wild Goose Storage, Inc. Each of these utilities meets the statutory requirements under PU Code section 8283 to establish a WMDVBE program and report its results to the Commission.

Commission regulated water utilities are not required by PU Code section 8283 to participate in the program, however they are voluntarily complying. Seven water utilities filed reports. The six major water utilities stated their programs are not yet fully established and have no statistical results to report. Park Water Company filed a report showing overall WMDVBE results of 11.9%. In an effort to provide a balanced comparison to other water utilities, Park Water's results have not been included in the accompanying tables. The Commission looks forward to seeing statistical results from the six major water utilities in future reports, in order to provide objective comparisons within this industry.

Full Panel Hearing

In October 2005, the Commission will hold its third public hearing regarding diversity in utility programs. Representatives of industry, government, and other interested parties are expected to attend. At this meeting, issues raised in the 2004 hearing will be expanded upon. Topics, speakers, and the agenda are currently being finalized.

California Utilities Diversity Council

As a result of the Commission's 2003 Full Panel Hearing, and at the behest of minority business associations and public advocates, the California Utilities Diversity Council (CUDC) was established. CUDC's inaugural meeting was held in March 2004. In December 2004 the CUDC filed its first annual report with the Commission. CUDC is providing input to the CPUC's next Full Panel Hearing.

The CUDC serves as a resource for advising CPUC, utility companies, policy makers and interested parties on ways to accomplish diversity in the utility industry. CUDC is comprised of twenty-five diverse members representing consumers, WMDVBE advocates, labor leaders, utility representatives, educational institutions, and CPUC.

The CUDC is composed of five committees. Their purposes are:

1. **Governance** - The CUDC believes that California utility companies must strive towards having their Boards of Directors become more reflective of the diverse population of the state of California.
2. **Employment** – Recruiting, retaining and promoting on an equal basis without preference to any group, reflecting California’s demographics, is attainable and measurable. The CUDC promotes a competent and comprehensive multi-lingual and multi-cultural work force both within the utility companies and the CPUC.
3. **Supplier Diversity** – Utility companies, and to a smaller extent the CPUC, contract out billions of dollars every year. Procurement opportunities should be available to all segments of California business, large and small. WMDVBE suppliers seek a fair share of opportunities both in traditional and nontraditional enterprises.
4. **Customer Service** – Over 150 languages are spoken in California. Communication in customers’ primary languages will help contribute to improved market penetration, add value to the bottom line and provide better overall service to stakeholders.
5. **Philanthropy** - California utility companies give millions of dollars to nonprofit organizations every year. The CUDC believes that charitable giving should be increased and focused primarily on underserved communities.

Looking ahead to 2006, the CUDC will continue its efforts in promoting diversity for utility companies doing business in California.

WMDVBE Verification

PU Code Section 8284(a) states that the Commission shall adopt criteria for verifying and determining the eligibility of WMDVBEs utilized in utility procurement contracting. In order to comply with this regulation, the Commission, in GO 156, required the establishment of a WMDVBE clearinghouse. The WMDVBE clearinghouse verifies that firms seeking to compete for procurement opportunities with the utilities meet the eligibility criteria for women- and minority-owned and operated business enterprises. The Department of General Services verifies the status of disabled veteran-owned and operated businesses. The clearinghouse operator also performs re-verifications on all vendors whose three-year status has expired.

The clearinghouse maintains a database of all verified vendors, including DVBES. As of August 2005, there were 3,851 verified vendors in the database, of which 1,297 were minority-owned businesses, 1,242 were women-owned businesses, 429 were both women- and minority-owned businesses, 824 were disabled veteran-enterprise businesses, 57 were a combination of these ownership categories, and 2 were small disadvantaged businesses. These amounts represent a decrease in the total number of verified vendors over those of 2003. Operating costs of the Clearinghouse are reimbursed by the participating utilities.

The CPUC awarded a new two-year contract for management of WMBE verification to Asian Inc. effective July 1, 2005. The award was made on a competitive bid basis to the lowest bidder.

Website

In addition to the Utility Supplier Diversity Program's homepage, its other Web pages offer:

- Application forms for suppliers to download
- Information on program history, certification, and the role of the clearinghouse
- Links to comparable verifying agencies and the supplier diversity programs of participating utilities
- A public version of the supplier database, with confidential information expunged

CONCLUSIONS

Utilities reported an increase of approximately \$600 million dollars spent on WMDVBE firms, as well as an increase in total procurement dollars spent in 2004. However, the percentage of dollars spent on WMDVBE firms show an overall decrease. One explanation for the increase in dollars spent by the utilities, but a decrease in the percentages achieved, may be the inclusion of wireless carriers' results. Wireless carriers have inordinately high procurement spending due to items such as telephone handsets in their procurement base. For example, Verizon Wireless reports a total procurement base of \$2.9 billion. Of this amount, \$1.7 billion (59%) was due to one item: handsets. Verizon Wireless states there are no certified, American-based WMDVBE firms providing handsets for them to purchase. Items such as handsets drive total procurement dollar amounts up, while a lack of WMDVBE firms providing these products drives the percentage achievement results down. Other wireless carriers are most likely in the same market conditions as Verizon Wireless. These conditions amplify the negative effect on the overall WMDVBE procurement results for all utilities.

In 2006, Commission staff will continue to focus on expanding the WMDVBE program by including underrepresented industries such as legal and technical services as a larger element in the utilities' procurement efforts. Staff will continue to assess the programs of utilities that did not meet their goals. Staff also looks forward to the uniform reporting of procurement categories in the utilities' annual reports. Uniform reporting will allow a more standardized analysis and comparison of the utilities' WMDVBE procurement results. With the Commission's continuation of public hearings and the utilities' participation and renewed commitment, greater achievement in meeting and exceeding WMDVBE procurement goals is expected.